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Context, strategy and financial participation: A comparative analysis

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Abstract

This article investigates where financial participation is most likely to be encountered, and explores its compatibility with collective forms of employee voice. It is based on the findings of a major international survey of human resource management (HRM) practices. We found that financial participation was not affected by collective employee voice, but that national context and associated HRM strategies had significant effects on its nature and extent. As financial participation is likely to make for greater variation in wage rates, it tends to weaken industry-level bargaining. By re-casting the fundamental determinants of wages, it is also likely to facilitate greater wage dispersion within the firm. Hence, it was found that financial participation is more commonly encountered in liberal market contexts, and in firms practising calculative HRM, where countervailing employee power is weak, whether or not collective bargaining is formally present.

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comparative and cross-cultural human resource management, finance, industrial relations, participation and workplace democracy, trade unions

Introduction

This article investigates where financial participation is most likely to be encountered, and explores its compatibility with collective forms of employee voice. It therefore seeks to shed further light on the nature of financial participation, and the extent to which it is compatible with (or indeed part and parcel of) more stakeholder-orientated ways of organizing work and employment. The article is based on the findings of a major international survey of HR practices.

Historically, there have been three motives for employers and the state introducing broad-based financial participation schemes aimed at most employees, as opposed to narrowly based schemes aimed at managers. The first has been defensive, to defend capital's legitimacy. A second set of motives seeks to involve workers in enterprises. Third, a more utopian motivation exists, intended to prefigure states of enhanced social harmony. The three motives are often difficult to distinguish, and have been pursued at different points by the state, employers and workers. These different motives mean that financial participation could be compatible with collective voice mechanisms, forming part and parcel of a broadly pluralist employment relations paradigm, or could represent a manifestation of neo-unitarist 'hard' HRM. In terms of context, financial participation may be encountered where shareholder rights are prominent, or, alternatively, represent one of the mechanisms whereby employee rights are entrenched in more stakeholder-orientated national settings.

The differing motives, types and effects of financial participation: Existing research evidence

Employees' productive behaviour is determined by the social definition of the situation that they adopt (Akerlof, 1982). Akerlof emphasizes the implicit gift-exchange nature of employment relations, whereby exchange is based on reciprocity and trust and relations are endogenously determined. Management has to try to influence these norms and may do so through financial participation (MacInnes et al., 1985). Thus, at the organizational level, financial participation may be a 'carrot' approach, rather than the 'stick' of monitoring employees (McNabb and Whitfield, 1998: 173). More recently, the aim of enhancing control has been more prominent, through aligning employee interests more closely with that of the employer, rather than promoting a utopian future (Baddon et al., 1989; see Morris et al., 2005). As Pendleton (2006: 754) notes, agency theory has increasingly been used to analyse financial participation, bringing assumptions about 'rational choice' individualism that discount workplace solidarities. It is assumed that workers will police their peers to maximize individual returns from group performance (Gollan et al., 2006). The latter approaches have accompanied the rise of 'harder' or more instrumental approaches to HRM, with the intention of promoting individualism rather than collectivism (Storey, 2001). They therefore aim to move away from rigid employment contracts to a

more flexible arrangement, whereby employees can share both more risk and reward (Kato and Morishima, 2002).

In the case of profit related pay, employees gain either cash or dividends from profit linked pay or a deferred profit sharing system; in the case of employee share ownership schemes, employees receive shares in the firm (Kato and Morishima, 2002). Share ownership can be built through firm or employee contributions (Poutsma and de Nijs, 2003). Some schemes combine elements of both (Cin et al., 2002). Profit sharing is linked to direct participation, in that it is an incentive to enhance immediate performance, while the latter gives employees a longer-term interest and, at least formally, a say in decision-making (Cin et al., 2002). McNabb and Whitfield (1998) suggest that these different types of scheme are not complementary in that they do not often seem to work well when encountered together.

Both profit related pay and employee share ownership schemes may be operationalized in a sophisticated fashion, with shares or a cash handout (linked to organizational performance) being distributed to all employees (D'Art and Turner, 2004). These two types of financial participation differ in many respects: the former is really part of the immediate pay package, and part and parcel of the employment contract. The latter is not related to the employment contract, but rather to the ownership of the firm, and, indeed, it is rare for a share ownership scheme to be incorporated in the employment contract (Poutsma and de Nijs, 2003). In part, this may be on account of the difficulty of negotiating such arrangements in the case of centralized bargaining (where the latter is in place). It could reflect a lack of compatibility between centralized bargaining and financial participation. However, Jones (1997) suggests that financial participation is more likely to succeed when workers have a greater degree of voice and control (see Ichniowski et al., 1997). Similarly, Kato and Morishima (2002) found that, in the case of Japan, financial participation worked better when combined with other voice mechanisms.

Studies conducted in a wide range of contexts provide mixed results regarding performance outcomes (D'Art and Turner, 2004; Nykodym et al., 1994; see also McNabb and Whitfield, 1998). Blasi et al. (1996) found no clear relation, although the balance tended towards more favourable results from employee stock ownership plans (ESOPs), especially in the case of smaller firms. In contrast, Jones and Kato (1993) concluded that ESOPs enhanced productivity in Japan and suggested that they are more likely where the organization's performance has recently been poor and where labour costs are low. Kato and Morishima (2002) found similar productivity benefits, though these tended to develop only over time. Looking at evidence from US 'new economy' firms, Sesil et al. (2002) found that those with stock option schemes tended to perform better. These mixed results may, in part, reflect the extent to which the fact of owning shares is far removed from the experience of day-to-day work and gains appear relatively arbitrary (see Nykodym et al., 1994). As Bakan et al. (2004) note, share ownership plans and similar forms of financial participation can be rather complicated, making understanding of their operation difficult for employees with limited formal education.

McNabb and Whitfield (1998) argue that the linkage between different types of participation is crucially important: bundles of practices may interact with each other and have a greater impact combined than each one in their own right. Pendleton (2006) suggests that financial participation may be encountered where there are a large number of forms of employee involvement, including forms of voice.

While often promoted as one element of 'High Performance Work Systems' (HPWS) and linked to other forms of participation (Appelbaum et al., 2000), financial participation is very different from other forms and indeed may be seen as an alternative to employee voice. Financial participation is both formal – in that employees gain shares in the company, and/or are formally allocated specific payments – and indirect – managers remain in control, and continue to make strategic decisions, even if workers have some formal rights as shareholders. Strauss (2006: 779) argues that the concept of 'financial participation' is a misnomer: financial schemes do not give workers a real voice in running firms. In most instances, the best workers can hope for in terms of influencing company policy under a share ownership scheme is via annual general meetings; in practice, this is unlikely to be successful, with drivers of shareholder activism commonly being external hostile raiders, for whom the interests of the target firm's workforce are far from constituting a priority (Strauss, 2006). In the US, management frequently acts as the legal trustee of employees' shares and can vote on their behalf at annual general meetings.

Financial participation and collective voice

It has been argued that most studies show positive links between direct employee participation and financial participation (Conyon and Freeman, 2001), though this is controversial (Dell'Aringa et al., 2007). Results from research on the relation between financial and other forms of participation diverge. Such schemes may be used to head off union organizing drives, by giving employees an individual stake in the firm and undermining the basis of collectivism. Financial participation may represent a strategy aimed at promoting consensus, with workers foregoing union representation for essentially paternalistic concessions (Gollan et al., 2006). Given this, unions are often hostile to such initiatives (D'Art and Turner, 2000). However, citing evidence from Ohio, Yates (2006) argues that outright employee share ownership does not threaten unionization. Black and Lynch (2004) argue that performance-based pay is often encountered with employee voice mechanisms: unionization may promote notions of job security, which may make employees more willing to support involvement and participation aimed at increasing output. In short, different participative mechanisms may be complementary (see Ichniowski et al., 1997). We have adopted this line in formulating our hypothesis.

Hypothesis 1: Financial participation is more likely to be found in workplaces where collective bargaining, works councils and Joint Consultative Committees (JCCs) are in place.

Financial participation and calculative HRM

An alternative focus is on the extent to which key dimensions of calculative HRM (Gooderham et al., 1999, 2006) are associated with financial participation. Gooderham et al. (2006: 1500) coined the 'calculative' HRM term to reflect individually based appraisal and reward systems, and active monitoring of training's effectiveness. This is counterposed to 'collaborative' HRM, whereby employees are seen and encouraged to see themselves as part of a collective enterprise. Evidence from the British

Workplace Employment Relations Survey (WERS) suggests that firms offering share plans are also likely to make use of 'calculative' individual performance based pay (Pendleton, 2006: 772). Thus, incentives that are open to groups are combined with those operating at an individual level. Kochan and Osterman (1994) note that both bring greater flexibility in the price of labour, suggesting that financial participation may constitute part of a broader instrumentalist HRM strategy.

In sum, the question emerges as to how far financial participation may be found in organizations practising calculative HRM, and the degree to which financial participation may be a dimension of the latter.

Hypothesis 2: Financial participation is more likely to be encountered within organizations practising calculative HRM.

Financial participation and varieties of capitalism

The varieties of capitalism approach seek to explain firms' behaviours in their national institutional contexts. Hall and Soskice (2001; see also Dore, 2000; Lincoln and Kalleberg, 1990) argue that a key distinction is between liberal market economies (LMEs) such as the UK and the US, and the collaborative market economies (CMEs) of continental Europe. In LMEs, markets play a greater role, and shareholder rights are much stronger than those of other stakeholders, with less patient investor behaviour (Dore, 2000). Competition between firms is more adversarial, focusing strongly on immediate competitive advantage (Hall and Soskice, 2001; Thelen, 2001). In contrast, within CMEs, large firms cooperate to a greater extent, underpinned by interlocking ownership structures, less reliance on stock market finance and more patient investor behaviour. A tendency towards coalition governments, and neo-corporatism, makes for stronger *stakeholder*, rather than shareholder, rights, including the rights of employees. It has been widely argued that the level and nature of participation will vary greatly between countries (e.g. Szabo, 2006), in line with the different varieties of capitalism. Within CMEs, employees are more likely to enjoy a combination of mutually reinforcing collective voice mechanisms, underpinning cooperative and incrementally innovative production paradigms (Brewster et al., 2007). In contrast, in LMEs, employee voice mechanisms are likely to be much weaker and individually orientated.

It can be argued that employee share ownership schemes are more likely to be encouraged by states in LMEs, where there is a strong emphasis on existing shareholder rights and the generation of shareholder value. They are unlikely to strengthen employees' traditionally weaker rights, with employee share ownership being very heavily diluted, and with limited voting rights (Poutsma and de Nijs, 2003). Profit sharing may, however, be brought under collective bargaining, with fixed formulae being agreed upon. Employee share ownership was more likely to be encountered in the UK, a LME, and in larger firms, as the latter are more likely to be publicly listed (see also Pendleton et al., 2003). Employee share ownership schemes may also be used as a defence against takeovers, as employees or trustees of employee share ownership plans are unlikely to sell their stakes to unknown bidders, or those with a negative reputation (Davidson and Worrell, 1994). Profit sharing is about greater flexibility in

pay rates (Kochan and Osterman, 1994). This is likely to be much harder to implement where collective bargaining is more widespread: the latter is likely to result in less flexibility in adjusting wages (especially downward) between rounds of collective bargaining (Hyman, 1989).

Finally, differences in financial participation levels may reflect differences in public policy and in particular tax arrangements. Cin et al. (2002) note that financial participation became much more popular in the 1980s and 1990s. The European Union and European states have taken action to encourage financial participation in recent decades (McNabb and Whitfield, 2007). In the UK, government sought to promote employee share ownership in utility firms undergoing privatization, in order to promote support for the privatization and to make renationalization more difficult (Ogden, 1995).

Kalmi et al. (2005) found little link between national context and the extent of employee involvement in the design of such programmes. One explanation might be that the penetration of such schemes across continental Europe in recent years is an effort to disseminate HRM practices associated with LMEs (Kalmi et al., 2005; Lane, 2003).

Hypothesis 3: Financial participation is more likely to be encountered in LMEs.

Financial participation and firm type

Research also indicates a sectoral and workforce composition dimension: Robinson and Wilkinson (2006) found that profit sharing is more likely in unskilled and uncertain business environments. In contrast, employee share ownership schemes are more likely in more skilled and less pressurized working environments (see also Morris et al., 2005). Poutsma and de Nijs (2003) found that profit sharing is more likely in growing European firms with skilled workforces. Where employee performance is hard to measure, it is argued that financial participation is more likely (Pendleton, 2006). Finally, Jones and Kato (1996) found that poorly performing firms were more likely to experiment with ESOPs: this would suggest that it might be more likely that they would be encountered in declining industries. In short, the nature and extent of financial participation may also reflect sectoral and other organizational characteristics (Whitfield and Poole, 1996). The free rider issue may make financial participation more viable in smaller firms where it is easier to identify shirkers, and Blasi et al. (1996) found that ESOPs yield better results in smaller firms, making their implementation more attractive.

Hypothesis 4: The incidence of financial participation is likely to vary according to sector within specific national contexts, and the size of the firm: financial participation is more likely to be encountered in smaller firms and in sunset industries.

Financial participation and the legal system

Financial researchers have also explored institutional effects (La Porta et al., 1998, 2000), citing the extent to which property rights are protected within different national institutional frameworks (Djankov et al., 2003). La Porta et al. have constructed a scale

of legal systems, ranking them as to whether they are closer to common law or civil law ideal types (see La Porta et al., 1998, 2000; also Djankov et al., 2003). The legal system will affect how other markets are regulated: they assume a zero-sum relation between shareholder and stakeholder rights and, should the one be protected, the other will necessarily be undermined (see Botero et al., 2004; Djankov et al., 2003). In common law countries, shareholder rights are likely to be stronger, and in civil law ones weaker; the converse is true with employee rights.

It may therefore be more likely that financial participation will be encountered where owner rights are stronger, that is, in countries closer to the common law ideal (see Botero et al., 2004; Djankov et al., 2003).

Hypothesis 5: The incidence of financial participation is likely to vary according to the type and extent of employment laws present in each specific country: it is more likely to be found in countries closer to the common law ideal, and less likely in civil law ones.

Data and method

The data used here are taken from the Cranet survey, containing evidence on human resource management and industrial relations within private and public organizations in 22 European countries (Brewster et al., 2004). We only use data from the private sector, taking results from the most recent, 2003/4 survey in five countries identified as examples of liberal market and co-ordinated market economies. The UK is used as a liberal market economy and Germany, Austria, Sweden and Denmark are used as appropriate examples of co-ordinated market economies. The survey is an international one of HR managers covering, in all, 41 countries from Western Europe and Eastern Europe. Developed countries such as the USA, Japan and Australia as well as transitional economies are encompassed by the survey. The survey is answered by the most senior HR professional, and covers a wide range of matters relating to company policies and practices in the HR area. Full technical details of the survey are provided by Brewster et al. (2004). The data for each country are representative with respect to size of industrial sectors by numbers employed. Firms are selected randomly, but weighted for sector and size to reflect the dynamics of the wider population, from publicly available mailing lists. There are three major limits to the survey. First, it excludes smaller firms, that is, those with fewer than 100 employees: on the other hand, such firms are less likely to have sophisticated HR systems in place. Second, it relies mostly on closed-ended questions to preclude prevarication and/or ambiguous responses; this means that some of the richness of specific contexts may be lost. Third, it is likely that potential respondents who took their role and function most seriously would be most likely to reply, which may reflect, at least partially the importance firms assign to the HR function; hence, firms that do not take HR seriously may be under-represented in the findings. However, consecutive Cranet surveys have consistently identified key clusters of practices and continuities, in relation both to sectors and nations, confirming their utility.

The first issue is how best to measure the organization's commitment to financial participation when it can take place through a number of methods, as well as at a number of levels. A scale is constructed using a series of dichotomous variables reflecting

the presence of different types of financial participation and the level at which they are available. These variables are: does the firm make use of employee share schemes, stock options and profit sharing separately for management, professional staff, clerical workers and manual workers. The scale is then constructed using Mokken's non-parametric model for one dimensional cumulative scaling (Sijtsma and Molenaar, 2002). This generates a scale ranging from 100 for those organizations recording 'yes' for all 12 items, zero for those recording all 'no' answers and an intermediate position for the majority of firms with a combination of yes and no responses. Their relative position in the scale is determined by their number of positive responses and the relative scarcity of positive responses to each of those survey questions. Therefore, a positive response to those questions having fewer 'yes' answers (e.g. aspects of financial participation that are less common, such as items 10, 11 and 12 in Table 1), will have a larger impact upon the scale than the more common positive responses. The financial participation scale is then used as the dependent variable within an empirical model where the extent of financial participation is regressed, using ordinary least squares, upon those variables highlighted within the hypotheses as being likely to promote or discourage the presence of financial participation within the organization. In addition, to explore the possibility that the factors influencing the presence of the three types of financial participation are different, the scale is disaggregated into its share ownership, profit sharing and stock option components respectively, with each of these being used as the dependent variable and regressed on the same explanatory variables.

The financial participation scale is estimated as a function of employee relations, the extent of calculative HRM, the variety of capitalism, and size and sector. Dummy variables are added for those firms where a JCC or works council is present as well as for those with collective bargaining over pay above the establishment level, thus enabling Hypothesis 1 to be tested with both of these expected to have a positive impact. Second, a scale is included reflecting the extent of calculative HRM within the organization. This is again a Mokken scale of the same type as the dependent variable and replicates as far as possible the scale developed by Gooderham et al. (1999) reflecting the presence of formal appraisals and/or merit pay for management, professionals, clerical staff and manual workers respectively. This relates to Hypothesis 2, the prediction being that there should be a positive relation between the extent of calculative HRM and the presence of financial participation. To facilitate testing Hypothesis 3, a dummy variable is created identifying those firms within the coordinated market economies. The UK is the base group and the CME dummy is expected to be negatively correlated with financial participation. Firm size is measured by the total number of employees in the organization and sector is controlled for using a set of 16 industry dummies. Metal manufacturing is used as the reference category. Both of these groups relate to Hypothesis 4. In addition, the possibility that the relation between the explanatory and dependent variables is not the same across all of the countries is controlled for by including interaction terms that reflect the interactions between firm size and variety of capitalism as well as calculative HRM and VOC.

Finally, the countries are reconfigured to reflect the legal system rather than the variety of capitalism. The UK remains the base group as it lies in the lower region of Botero et al.'s (2004) employment law index. There is a dummy identifying the mid-range countries (Denmark and Austria) as well as one for the upper range countries

(Germany and Sweden). The model is then re-estimated using the reconfigured country dummies, thus enabling Hypothesis 5 to be tested.

Although not presented as a formal hypothesis we speculate that the factors influencing the presence of financial participation may differ across different levels of the organization. In short, the factors determining the presence of profit sharing, share ownership or stock options for management and professionals may be more or less important when considering the availability of these schemes to manual or clerical workers. Therefore, dichotomous variables are created reflecting the presence of broad based financial participation, these being firms offering profit sharing, share ownership or stock options respectively to manual and/or clerical workers against those who do not. The resultant binary variables are then used as the dependent variables and estimated against the same explanatory variables, but on this occasion logit models are used, rather than OLS, as there is a limited dependent variable.

Findings

The first stage of the analysis is to construct the Mokken scale of financial participation, designed to incorporate the broadest possible measure of all types of financial participation; the results are recorded in Table 1. Before proceeding it is important to establish the validity of the scale as a measure of financial participation, entailing an examination of both the scalability and reliability of both the data and the resultant scale. The first test of the validity of the scale is Loevinger's H-coefficient of homogeneity (H_{wgt}), which is recorded for each individual item as well as for the overall scale. The minimum acceptance criterion is an H-value of at least 0.3. All of the individual items satisfy this and the H-value for the overall scale of 0.36 indicates that the scale is robust in terms of scalability. It is also important to test for the indicators' reliability: the Cronbach's alpha of 0.79 is comfortably above the standard minimum of 0.7. The same process is carried out for the calculative HRM scale used as an explanatory variable in the empirical model; this also satisfies both conditions (full results are available from the authors on request). As the financial participation scale satisfies the key conditions in terms of scalability and reliability it can be used as the dependent variable within the empirical model. This is estimated using ordinary least squares and the results are reported in Table 3, together with the subsequent models where the dependent variable is each of the three elements disaggregated from the overall financial participation index. However, before examining the results of the various empirical analyses in detail the descriptive statistics for all of the variables used in the analysis are recorded below in Table 2.

Even for cross-sectional data the *R*-squared is low, as only 11 percent of the variation in the financial participation scale is explained by the independent variables. It is therefore fair to assume that factors beyond the scope of this model have an influence upon the decision to make use of financial participation.

The first hypothesis predicts that financial participation will be more likely in the presence of collective bargaining and a JCC or works council and this hypothesis is largely rejected. Collective bargaining is irrelevant to the presence of financial participation as it is insignificant in all four models. However, the situation with JCCs/works councils is less clear cut: in the first model, combining all aspects of financial

Table 1 Mokken scale of financial participation

		Mean	H _{wgt}	Corr.
Scale	Overall calculative scale, 12 items (Cronbach's alpha = 0.79)		0.36	0.33
Item 1	Employee share scheme – management	0.27	0.38	0.52
Item 2	Employee share scheme – professional	0.21	0.39	0.55
Item 3	Employee share scheme – clerical	0.19	0.40	0.56
Item 4	Employee share scheme – manual	0.16	0.34	0.44
Item 5	Profit sharing – management	0.37	0.36	0.39
Item 6	Profit sharing – professional	0.28	0.36	0.48
Item 7	Profit sharing – clerical	0.23	0.35	0.49
Item 8	Profit sharing – manual	0.17	0.33	0.43
Item 9	Stock options – management	0.23	0.30	0.39
Item 10	Stock options – professional	0.09	0.36	0.36
Item 11	Stock options – clerical	0.05	0.36	0.27
Item 12	Stock options – manual	0.03	0.39	0.22

participation, the presence of a JCC/works council does not have a significant impact. Only in the case of profit sharing is there evidence of a positive and significant impact from a JCC/works council upon the extent of financial participation. It is even revealed that the presence of a JCC/works council significantly reduces the extent of stock options, possibly suggesting that these formal representative bodies have a preference for profit sharing over stock option schemes.

The second hypothesis relates to the relation between calculative HRM and financial participation, with the expectation that those firms more extensively practising calculative HRM are more likely to make use of financial participation. This is strongly confirmed by the empirical analysis. The calculative scale is positive and significant in all cases, with the level of significance only dropping for profit sharing. This suggests that financial participation underpins and supports the strategies of those firms pursuing calculative HRM.

The third formal hypothesis proposes that the extent of financial participation is likely to be higher within LMEs. The evidence from the model provides some support for this. The CME dummy variable is negative and strongly significant in the overall financial participation model indicating that once size, industry, employee relations and calculative HRM are controlled for, the extent of financial participation as measured by this scale is significantly lower within the firms located in CMEs. However, once the scale is separated into its three components it is shown that this is very clearly true for share ownership, but there is no significant difference between LMEs and CMEs for other forms of financial participation. As a result, Hypothesis 3 is partially confirmed, but only in the case of share ownership.

The prediction of Hypothesis 4 is that the extent of financial participation will be affected by size and sector. The size variable is positive and significant in all four models, indicating that the greater the number of employees, the more willing and able firms are to make use of financial participation. This is at odds with what was posited by Hypothesis

Table 2 Descriptive statistics

Variable	Mean	SD	Min.	Max.	Obs.
Financial participation scale	18.023	20.07	0	100	1640
Share ownership scale	20.964	36.19	0	100	1640
Profit sharing scale	25.897	37.87	0	100	1640
Stock option scale	8.981	20.40	0	100	1640
Broad based share ownership	0.218	0.41	0	1	1640
Broad based profit sharing	0.245	0.43	0	1	1640
Broad based stock option	0.047	0.21	0	1	1640
Total no. of employees (000s)	1982.538	10709.31	6	211063	1640
Agriculture	0.010	0.10	0	1	1640
Energy & water	0.026	0.16	0	1	1640
Chemical products	0.038	0.19	0	1	1640
Metal manufacturing	0.222	0.42	0	1	1640
Other manufacturing	0.207	0.41	0	1	1640
Building & civil engineering	0.038	0.19	0	1	1640
Retail & distribution	0.117	0.32	0	1	1640
Transport & communication	0.052	0.22	0	1	1640
Banking, finance & insurance	0.123	0.33	0	1	1640
Personal & domestic services	0.009	0.09	0	1	1640
Health services	0.018	0.13	0	1	1640
Other services	0.023	0.15	0	1	1640
Education	0.007	0.08	0	1	1640
Social services	0.003	0.06	0	1	1640
Public administration	0.019	0.14	0	1	1640
Other	0.088	0.28	0	1	1640
Coordinated market economy	0.570	0.50	0	1	1640
Liberal market economy	0.430	0.50	0	1	1640
JCC/WC present	0.666	0.47	0	1	1640
Collective bargaining	0.741	0.44	0	1	1640
Calculative HRM scale	39.395	28.36	0	100	1640
Size *VOC	906.646	6009.98	0	210000	1640
Calculative HRM *VOC	21.937	29.41	0	100	1640
Denmark, Austria	0.288	0.45	0	1	1640
Germany, Sweden	0.282	0.45	0	1	1640

4 as it was anticipated that there would be a negative relation between size and financial participation. However, for sector the evidence is less clear cut. In comparison with the metal manufacturing reference category only energy and water have significantly higher levels of financial participation. The latter sectors encompass privatized state utilities: as noted above, in the UK, financial participation has been used to make privatization more palatable (see Ogden, 1995). A handful of industries, notably education, have significantly lower levels, and the majority of industries do not differ greatly from the base group. Hypothesis 4 is therefore only partially upheld.

It was also posited that cross-country differences may reflect specific types of legal system, hence the original model was re-estimated with a reconfiguration of the country variables to reflect differences in the legal systems. As outlined earlier, the UK is the

Table 3 Empirical models of financial participation

Variable	Financial part.		Share ownership		Profit sharing		Stock options		Mean
	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	
Constant	15.775***	8.76	17.822***	5.43	22.205***	6.47	8.703***	4.65	
Employee relations									
JCC/WC present	0.874	0.76	1.900	0.91	4.615**	2.11	-3.095***	-2.59	0.67
Collective bargaining	-0.267	-0.24	-1.303	-0.64	1.188	0.56	-0.547	-0.47	0.741
Calculative HRM									
Calculative HRM scale	0.116***	4.19	0.175***	3.46	0.088*	1.66	0.088***	3.06	39.4
VOC									
Coordinated market economy	-5.016***	-2.84	-13.822***	-4.30	0.839	0.25	-2.060	-1.12	0.57
Size									
Total no. of employees (000s)	0.298***	5.50	0.414***	4.19	0.252***	2.44	0.234***	4.15	1.983
Industry									
Agriculture	-0.380	-0.08	1.653	0.19	-2.825	-0.31	-0.167	-0.03	0.01
Energy & water	6.381**	2.04	11.683**	2.05	2.688	0.45	4.739	1.46	0.03
Chemical products	3.841	1.45	11.013**	2.28	-6.097	-1.21	5.670**	2.06	0.04
Other manufacturing	-2.078	-1.43	2.915	1.10	-8.168***	-2.95	-1.484	-0.98	0.21

Table 3 (Continued)

Variable	Financial part.		Share ownership		Profit sharing		Stock options		Mean
	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	
Building & civil engineering	-0.638	-0.24	6.491	1.35	-3.611	-0.72	-4.479*	-1.64	0.04
Retail & distribution	-6.767***	-3.87	-0.082	-0.03	-18.899***	-5.68	-2.712	-1.49	0.12
Transport & communication	-1.366	-0.59	8.913**	2.11	-13.863***	-3.13	-0.176	-0.07	0.05
Banking, finance & insurance	-0.546	-0.32	4.303	1.38	-8.800***	-2.70	1.947	1.10	0.12
Personal & domestic services	-9.830*	-1.88	-8.864	-0.93	-14.594	-1.46	-6.777	-1.25	0.01
Health services	-3.487	-0.96	1.575	0.24	-20.719***	-2.98	6.176*	1.63	0.02
Other services	-1.253	-0.38	4.602	0.77	-14.219**	-2.28	4.215	1.24	0.02
Education	-13.026	-2.22	-13.921	-1.30	-19.988*	-1.79	-6.532	-1.07	0.01
Social services	-13.212	-1.53	-8.757	-0.56	-29.091*	-1.77	-4.122	-0.46	0.003
Public administration	-4.175	-1.15	2.802	0.42	-13.486*	-1.95	-2.689	-0.71	0.02
Other	1.138	0.60	7.122**	2.05	-9.760***	-2.68	4.800***	2.41	0.09
Interactions									
Size *VOC	-0.175*	-1.81	-0.527***	-2.99	0.160	0.87	-0.140	-1.39	906.6
Calculative HRM *VOC	0.049	1.41	0.014	0.23	0.154**	2.30	-0.005	-0.15	21.9
Model	OLS		OLS		OLS		OLS		
Dependent variable	Fin. part. scale		Share owner ship		Profit sharing		Stock options		
Mean	18.02		20.96		25.89		8.98		
Observations	1640		1640		1640		1640		
R-squared	0.11		0.09		0.09		0.06		

*, ** and *** denote significance at the 10, 5 and 1% levels respectively.

reference category being in the lower third of the employment law index, Denmark and Austria are in the medium range and Germany and Sweden are in the upper third. Although in the interests of brevity the results are not reported here, they are available on request. Both of the legal system dummies are negative and significant, suggesting that none of the legal systems are as conducive to financial participation as that in the UK, a country close to the common law ideal type. However, it may have been expected that the level of financial participation decreased as the employment law index increased (i.e. coming closer to the civil law ideal), but that is not the case as the countries in the middle range are the least likely to make use of financial participation. It would appear that the relation between financial participation and the legal system is more subtle and nuanced than a straightforward linear one. The relation between employer and employee rights is not a simple dichotomous one, as suggested by Botero et al. (2004). Hypothesis 5 is therefore disproved: the relation between legal system, employee rights and financial participation appears to be rather more complex than would be suggested in the literature: this area deserves further investigation.

Finally, logit models are estimated using those firms adopting broad based financial participation and those not as the dependent variables. The results are recorded in Table 4 with the findings largely confirming those reported earlier. However, it is noticeable that calculative HRM has a much smaller impact upon broad based financial participation, particularly profit sharing. It is fairly easy to reach a similar conclusion for stock option schemes as the low proportion of firms offering broad based stock options, only 4.7 percent, renders virtually all of the explanatory variables insignificant. It is also interesting to note, although the causes are not clear, that the interactions between both size and variety of capitalism as well as calculative HRM and VOC are more important than in the earlier models.

Conclusion

The article contributes to understanding the relation between different forms of voice mechanism and types of financial participation. Perhaps the most striking finding is the lack of relation between both profit sharing or share ownership schemes and collective bargaining. This confirms the value of taking an approach that is more compatible with a 'management choice' philosophy than with a 'constrained choice' one. Indeed, the extent of managerial choice may well underlie the small amount of variation in financial participation explained by the independent variables. Thus, even in larger firms where financial participation is most in evidence and unions tend to have a relatively strong presence, the presence of financial participation is not the result of pressure from trade unions. This no doubt reflects the often hostile or agnostic stances taken by European unions to financial participation schemes in general. Why then, is there not a strongly negative relation? This could reflect union weakness, that the issue is not central to their agenda, or a combination of the two (see Hyman, 1989).

The managerial choice notion is supported by the relation we demonstrate between different forms of financial participation on the one hand, and calculative HRM and variety of capitalism on the other. Those firms adopting calculative HRM are

Table 4 Logit models of broad-based financial participation

Variable	Share ownership		Profit sharing		Stock options		Mean
	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	
Constant	-1.776***	-7.57	-1.301***	-5.60	-2.665***	-6.13	
Employee relations							
JCC/WC present	0.199	1.34	0.182	1.20	-1.090***	-3.86	0.67
Collective bargaining	-0.058	-0.41	-0.021	-0.15	-0.008	-0.03	0.74
Calculative HRM							
Calculative HRM scale	0.007**	2.08	0.004	0.99	0.001	0.17	39.40
VOC							
Coordinated market economy	-1.048***	-4.28	-0.063	-0.27	0.186	0.41	0.57
Size							
Total no. of employees (000s)	0.078***	3.03	0.019***	2.55	0.010	1.12	1.983
Industry							
Agriculture	0.046***	0.06	-0.236	-0.40	0.189	0.18	0.01
Energy & water	0.936***	2.43	0.155	0.44	0.928	1.57	0.03
Chemical products	0.857***	2.59	-0.096	-0.32	0.511	0.87	0.04
Other manufacturing	0.514***	2.58	-0.441***	-2.49	-0.706	-1.52	0.21
Building & civil engineering	0.791**	2.37	-0.357	-1.10	-1.245	-1.19	0.04
Retail & distribution	0.176	0.70	-1.395***	-5.10	-0.434	-0.91	0.12
Transport & communication	0.644**	2.10	-0.560*	-1.90	-0.756	-0.97	0.05
Banking, finance & insurance	0.636***	2.82	-0.197	-0.98	0.380	1.00	0.12

(Continued)

Table 4 (Continued)

Variable	Share ownership		Profit sharing		Stock options		Mean
	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	
Education	n/a	n/a	-1.217	-1.15	n/a	n/a	0.01
Social services	n/a	n/a	n/a	n/a	n/a	n/a	0.003
Public administration	0.469	1.07	-0.744	-1.42	-0.513	-0.48	0.02
Other	0.814***	3.32	-0.297	-1.28	0.725	1.88	0.09
Interactions							
Size *VOC	-0.162***	-3.24	0.056**	2.23	-0.003	-0.18	906.6
Calculative HRM *VOC	0.009*	1.95	0.009**	2.05	0.004	0.49	21.9
Model	Logit		Logit		Logit		
Dependent variable	Share ownership		Profit sharing		Stock options		
Mean	0.218		0.245		0.047		
Observations	1640		1640		1640		
Iterations	7		6		8		
Log-likelihood	-792.3		-850.0		-290.2		
Restricted log-likelihood	-859.3		-912.2		-310.7		
Chi-squared	133.9		124.3		41.1		
Degrees of freedom	19		21		19		

*, ** and *** denote significance at the 10, 5 and 1% levels respectively.

significantly more likely to make use of financial participation to underpin and support company strategies. The calculative scale is largely a measure of the individualization of employment arrangements and, as such, the link to individualized financial participation is not surprising. Financial participation allows for greater variation in wage setting within and between firms particularly, as we have shown, in the case of profit sharing, depending on differences in organizational performance, and arrangements regarding how profits are shared out. Where financial participation is available in CME firms, it tends to be made available at all levels. It should be recalled that the wage gap between managerial and non-managerial pay remains much greater in LMEs, and that the manner in which financial participation is operationalized may be worsening this inequality. Firms in the LMEs are more likely to seek efficiency gains by extending the calculative paradigm both ideologically and sociologically. While there appeared to be differences in the extent of financial participation depending on national legal systems, the relation appeared a complex one: the incidence was not automatically lower in countries closer to the civil law ideal than those that were less so.

From a theoretical viewpoint, the latter point suggests that the ‘calculative HRM’ concept may usefully be extended to include financial participation. Indeed, financial participation appears an entirely rational crystallization of the implications of the paradigm as formulated by Gooderham et al. As in some companies ‘calculative’ practices are followed without financial participation, a distinction between the standard form and an ‘extended calculative’ form may be useful. In the latter case, the appraisal and measurement approach evident in calculative HRM may appear to managements to be underpinned and reinforced by financial participation. The bundle of practices is therefore expanded and may appear more coherent both to managers and employees.

In CMEs, on the other hand, many companies appear to be combining historic collectivism with some performance-enhancing features of firms in LMEs. While they use profit sharing across more employee strata, this is not the case with financial participation more widely defined and, as a result, they tie employees more directly to companies’ announced profits. Employees are therefore more exposed to company accounting practice risks than to broader stock market risk. While there may be some scope for their exercising voice over the first via company mechanisms, there is no such possibility in relation to the second. Thus, the predominant choice in the form of financial participation is, as in the case of the ‘calculative’ HRM forms most commonly found in LMEs, consistent with other forms of participation that promote employee voice in CMEs. A fertile area for future research would be the extent to which foreign-owned multinationals may be pioneering financial participation as part and parcel of broader strategies to promote shareholder rights and weaken those of employees, while influencing the allocation of resources between these two groupings. It also highlights once again the nature of diversity within national contexts, and the degree to which variations in managerial strategy and, potentially, in countervailing employee voice may open up opportunities for employers to experiment with more hard line approaches.

Our analysis underlines the importance of size and sector to the incidence of financial participation. Larger firms were more likely to experiment with financial participation. This could reflect both the extent to which larger firms are subject to international

pressures towards liberalization: it may also reflect the greater likelihood that such firms may be foreign owned, and in a coordinated market setting, infusing aspects of the HRM model encountered in their parent country (see Brewster et al., 2008). In sector terms, virtually all of the dummies achieve significance in the profit sharing model, suggesting that the presence of profit sharing is more sensitive than share ownership to the firm's sector. This could reflect the extent to which profit sharing may be more closely associated with specific production paradigms, operating as potentially a more sophisticated development of traditional output-based pay.

In summary, we found that financial participation was not affected by collective employee voice, but that national context and associated HRM strategies had significant effects on its nature and extent. Given that financial participation is likely to make for greater variation in wage rates, it is also likely to weaken any industry-level bargaining: by re-casting the fundamental determinants of wages, it is also likely to facilitate greater wage dispersion within the firm. Hence, it was found that financial participation was more commonly encountered in liberal market contexts, and in firms practising calculative HRM, where countervailing employee power is weak, whether or not collective bargaining is formally present. While the legal system appears to have some impact, the relation is not a linear one, framed purely by how close or far countries are from a common law ideal type. Sector and firm size also impacted on the nature and extent of financial participation, which could reflect industry-specific variations in bargaining practices, differences in production paradigms, and, in the case of size, the possible effects of foreign ownership.

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